

Grohe A/S

Sluseholmen 8 C, 2. th.
2450 Copenhagen SV
Central Business Registration No
52503310

Annual report 2018/19

The Annual General Meeting adopted the annual report on 31.05.2019

Chairman of the General Meeting

Name: Lars Tinneberg Pedersen

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Entity details

Entity

Grohe A/S
Sluseholmen 8 C, 2. th.
2450 Copenhagen SV

Central Business Registration No: 52503310
Registered in: Copenhagen
Financial year: 01.04.2018 - 31.03.2019

Board of Directors

Per Olof Jonas Persson Brennwald, Chairman
Peter Juul
Lars Tinneberg Pedersen

Executive Board

Peter Juul, Chief Executive Officer

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
P.O. Box 1600
0900 Copenhagen C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Grohe A/S for the financial year 01.04.2018 - 31.03.2019.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.03.2019 and of the results of its operations for the financial year 01.04.2018 - 31.03.2019.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 31.05.2019

Executive Board

Peter Juul
Chief Executive Officer

Board of Directors

Per Olof Jonas Persson
Brennwald
Chairman

Peter Juul

Lars Tinneberg Pedersen

Independent auditor's report

To the shareholders of Grohe A/S

Opinion

We have audited the financial statements of Grohe A/S for the financial year 01.04.2018 - 31.03.2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.03.2019 and of the results of its operations for the financial year 01.04.2018 - 31.03.2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Independent auditor's report

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Independent auditor's report

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 31.05.2019

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Jens Jørgensen Baes
State Authorised Public Accountant
Identification number (MNE) mne14956

Jan Larsen
State Authorised Public Accountant
Identification number (MNE) mne16541

Management commentary

	2018/19	2017/18	2016/17	2016	2015
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Financial highlights					
Key figures					
Revenue	435.781	404.872	324.275	76.311	267.025
Gross profit/loss	137.361	126.477	104.977	24.266	82.446
Operating profit/loss	17.151	15.695	11.975	5.473	9.160
Net financials	(1.431)	(3.522)	(1.597)	(316)	(484)
Profit/loss for the year	12.130	10.300	7.470	4.051	8.811
Total assets	162.866	121.260	108.635	88.129	90.482
Investments in property, plant and equipment	6.465	4.539	6.709	1.757	4.245
Equity	30.361	25.609	21.632	18.803	14.777
Ratios					
Gross margin (%)	31,5	31,2	32,4	31,8	30,9
Net margin (%)	2,8	2,5	2,3	5,3	3,3
Return on equity (%)	43,3	43,6	36,9	24,1	57,2
Solvency ratio (%)	18,6	21,1	19,9	21,3	16,3

The income statement key figures for 2016 only include three months. Consequently, the key figures for 2016 are not comparable with other financial years that include operations for 12 months. In addition, the balance sheet items are calculated at 31.12. in the financial year 2015, but are calculated at 31.03. in the financial years 2016-2018/19.

Financial highlights are defined and calculated in accordance with the applicable version of "Recommendations & Ratios" issued by the CFA Society Denmark.

Ratios	Calculation formula	Ratios
Gross margin (%)	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$	The entity's operating gearing.
Net margin (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Revenue}}$	The entity's operating profitability.
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Solvency ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities

The object of Grohe A/S is to sell and market sanitary fittings and accessories domestically and abroad as well as related activities.

For 20 years, Grohe A/S has operated as the Scandinavian centre of excellence in charge of the markets in Denmark, Norway, Sweden, Iceland and Finland in the areas of management, economics, marketing, logistics and service.

Development in activities and finances

In 2018/19, the Company's revenue was DKK 435,781 thousand against DKK 404,872 thousand the year before. The income statement for 2018/19 shows a profit of DKK 12,130 thousand against a profit of DKK 10,300 thousand in 2017/18, which is considered satisfactory. The balance sheet shows equity of DKK 30,361 thousand at 31.03.2019. According to the annual report for 2017/18, Management forecasted a profit before tax at the level of DKK 13-16 million.

Outlook

Profit before tax for 2019/20 is expected to reach a level of DKK 15-18 million.

Particular risks

The Company's activities are not associated with any particular risks in the industry.

Intellectual capital resources

The Company's long-standing activities on the market for sales and marketing of sanitary fittings have built skilled and experienced members of staff.

Environmental performance

The Company's impact on the external environment is considered limited.

Foreign branches

The Company has established branches in Norway and Sweden and has a permanent establishment in Finland.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.

Income statement for 2018/19

	<u>Notes</u>	<u>2018/19</u> <u>DKK</u>	<u>2017/18</u> <u>DKK</u>
Revenue		435.780.998	404.871.752
Cost of sales		<u>(298.420.144)</u>	<u>(278.394.309)</u>
Gross profit/loss		137.360.854	126.477.443
Distribution costs	1	(83.904.099)	(79.110.619)
Administrative costs		<u>(36.306.254)</u>	<u>(31.671.543)</u>
Operating profit/loss		17.150.501	15.695.281
Other financial income	2	2.869.971	2.222.998
Other financial expenses	3	<u>(4.300.780)</u>	<u>(5.745.351)</u>
Profit/loss before tax		15.719.692	12.172.928
Tax on profit/loss for the year	4	<u>(3.589.616)</u>	<u>(1.873.067)</u>
Profit/loss for the year	5	<u>12.130.076</u>	<u>10.299.861</u>

Balance sheet at 31.03.2019

	<u>Notes</u>	<u>2018/19 DKK</u>	<u>2017/18 DKK</u>
Other fixtures and fittings, tools and equipment		12.785.065	11.875.776
Property, plant and equipment	6	<u>12.785.065</u>	<u>11.875.776</u>
Fixed assets		<u>12.785.065</u>	<u>11.875.776</u>
Manufactured goods and goods for resale		6.388.865	6.088.385
Inventories		<u>6.388.865</u>	<u>6.088.385</u>
Trade receivables		130.742.102	87.772.777
Receivables from group enterprises		1.366.052	1.647.535
Deferred tax	7	979.972	1.150.589
Other receivables		1.103.502	890.173
Income tax receivable		0	244.974
Prepayments	8	1.733.697	1.876.605
Receivables		<u>135.925.325</u>	<u>93.582.653</u>
Cash		<u>7.766.998</u>	<u>9.712.934</u>
Current assets		<u>150.081.188</u>	<u>109.383.972</u>
Assets		<u>162.866.253</u>	<u>121.259.748</u>

Balance sheet at 31.03.2019

	<u>Notes</u>	<u>2018/19</u> <u>DKK</u>	<u>2017/18</u> <u>DKK</u>
Contributed capital	9	2.500.000	2.500.000
Retained earnings		20.361.173	23.109.329
Proposed dividend		<u>7.500.000</u>	<u>0</u>
Equity		<u>30.361.173</u>	<u>25.609.329</u>
Trade payables		10.502.868	8.877.625
Payables to group enterprises		52.212.087	30.707.274
Income tax payable		1.998.036	738.465
Other payables	10	<u>67.792.089</u>	<u>55.327.055</u>
Current liabilities other than provisions		<u>132.505.080</u>	<u>95.650.419</u>
Liabilities other than provisions		<u>132.505.080</u>	<u>95.650.419</u>
Equity and liabilities		<u>162.866.253</u>	<u>121.259.748</u>
Unrecognised rental and lease commitments	11		
Related parties with controlling interest	12		
Transactions with related parties	13		
Group relations	14		

Statement of changes in equity for 2018/19

	Contributed capital DKK	Retained earnings DKK	Proposed dividend DKK	Total DKK
Equity beginning of year	2.500.000	23.109.329	0	25.609.329
Extraordinary dividend paid	0	(7.500.000)	0	(7.500.000)
Exchange rate adjustments	0	121.768	0	121.768
Profit/loss for the year	0	4.630.076	7.500.000	12.130.076
Equity end of year	2.500.000	20.361.173	7.500.000	30.361.173

Notes

	2018/19	2017/18
	DKK	DKK
1. Staff costs		
Wages and salaries	46.754.385	45.707.689
Pension costs	7.972.368	6.911.780
Other social security costs	2.942.640	2.509.675
Other staff costs	870.574	699.083
	58.539.967	55.828.227
Average number of employees	92	82

According to section 98b(3)(2) of the Danish Financial Statements Act, remuneration to Management is not disclosed.

	2018/19	2017/18
	DKK	DKK
2. Other financial income		
Interest income	0	225
Exchange rate adjustments	2.869.971	2.222.773
	2.869.971	2.222.998

	2018/19	2017/18
	DKK	DKK
3. Other financial expenses		
Interest expenses	223.303	44.700
Exchange rate adjustments	3.849.855	5.401.207
Other financial expenses	227.622	299.444
	4.300.780	5.745.351

	2018/19	2017/18
	DKK	DKK
4. Tax on profit/loss for the year		
Tax on current year taxable income	3.420.532	2.592.671
Change in deferred tax for the year	170.740	(136.762)
Adjustment concerning previous years	(1.656)	(582.842)
	3.589.616	1.873.067

Notes

	2018/19	2017/18
	DKK	DKK
5. Proposed distribution of profit/loss		
Ordinary dividend for the financial year	7.500.000	0
Extraordinary dividend distributed in the financial year	7.500.000	0
Retained earnings	<u>(2.869.924)</u>	<u>10.299.861</u>
	<u>12.130.076</u>	<u>10.299.861</u>
		Other
		fixtures and
		fittings,
		tools and
		equipment
		DKK
6. Property, plant and equipment		
Cost beginning of year		19.937.906
Exchange rate adjustments		(55.335)
Additions		6.464.568
Disposals		<u>(4.529.893)</u>
Cost end of year		<u>21.817.246</u>
Depreciation and impairment losses beginning of the year		(8.062.130)
Exchange rate adjustments		25.545
Depreciation for the year		(4.657.034)
Reversal regarding disposals		<u>3.661.438</u>
Depreciation and impairment losses end of the year		<u>(9.032.181)</u>
Carrying amount end of year		<u>12.785.065</u>

Notes

	2018/19	2017/18
	DKK	DKK
7. Deferred tax		
Property, plant and equipment	351.125	164.623
Liabilities other than provisions	66.000	44.000
Tax losses carried forward	562.847	941.966
	979.972	1.150.589

Changes during the year

Beginning of year	1.150.589
Recognised in the income statement	(170.740)
Recognised directly in equity	123
End of year	979.972

8. Prepayments

Prepayments include accrual of expenses relating to subsequent financial years.

	Number	Par value	Nominal
		DKK	value
			DKK
9. Contributed capital			
Shares	100	10.000	1.000.000
Shares	4	50.000	200.000
Shares	2	100.000	200.000
Shares	3	200.000	600.000
Shares	100	5.000	500.000
	209		2.500.000

	2018/19	2017/18
	DKK	DKK
10. Other payables		
VAT and duties	15.085.534	10.007.342
Wages and salaries, personal income taxes, social security costs, etc payable	1.197.462	984.800
Holiday pay obligation	8.190.477	6.899.850
Other costs payable	43.318.616	37.435.063
	67.792.089	55.327.055

Notes

	2018/19	2017/18
	DKK	DKK
11. Unrecognised rental and lease commitments		
Hereof liabilities under rental or lease agreements until maturity in total	<u>12.827.889</u>	<u>11.520.287</u>

12. Related parties with controlling interest

Grohe International GmbH, Germany

13. Transactions with related parties

No transactions with related parties were made in the financial year 2018/19, which were not made on an arm's length basis.

14. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:

LIXIL Corporation, 36F, Kasumigaseki Building, 3-2-5 Kasumigaseki, Chiyoda-ku, 100-6036 Tokyo, Japan

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:

Grohe International GmbH, Feldmühleplatz 15, 40545 Düsseldorf, Germany

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (medium).

The accounting policies applied to these financial statements are consistent with those applied last year.

The financial statements are presented in DKK.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date, or the rate at the balance sheet date, are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

When recognising foreign branches that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date. Exchange differences arising out of the translation of foreign branches' equity at the beginning of the year at the balance sheet date exchange rates as well as out of the translation of income statements from average rates to the exchange rates at the balance sheet date are classified directly as equity.

When recognising foreign branches that are integral entities, monetary assets and liabilities are translated using the exchange rates at the balance sheet date. Non-monetary assets and liabilities are translated at the

Accounting policies

exchange rate at the time of acquisition or the time of any subsequent revaluation or write-down. The items of the income statement are translated at the average rates of the months; however, items deriving from non-monetary assets and liabilities are translated using the historical rates applicable to the relevant non-monetary items.

Income statement

Revenue

Revenue from the sale of goods is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Cost of sales

Cost of sales comprises cost of sales for the financial year measured at cost, adjusted for ordinary inventory write-downs.

Distribution costs

Distribution costs comprise costs incurred for sale and distribution of the Entity's products, including wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment attached to the distribution process.

Administrative costs

Administrative expenses comprise expenses incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationery and office supplies as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Entity.

Other financial income

Other financial income comprises interest income, net capital gains on securities, payables and transactions in foreign currencies as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, net capital losses on securities, payables and transactions in foreign currencies as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Balance sheet

Property, plant and equipment

Other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Accounting policies

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Other fixtures and fittings, tools and equipment 3-10 years

Estimated useful lives and residual values are reassessed annually.

Property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost consists of purchase price plus delivery costs.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value, less write-downs for bad and doubtful debts.

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash comprises cash in hand and bank deposits.

Dividend

Dividend is recognised as a liability at the time of adoption at the general meeting. The proposed dividend for the financial year is disclosed as a separate item in equity.

Accounting policies

Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Income tax receivable or payable

Current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Cash flow statement

Referring to section 86(4) of the Danish Financial Statements Act, the Company has not prepared any cash flow statement as such statement is prepared by the Parent.